

DISCUSSION PAPER

**Preliminary Views on Accounting Standards for Small and Medium-sized Entities
Comments to be submitted by 24 September 2004**

Our comments are hereunder submitted for IASB consideration.

1. Introduction

FACPCE has prepared the comments on the above-referred discussion paper and is at IASB's disposal should any further explanation be required either on the content or on the translation.

The process of developing the comments was special in our jurisdiction. For that reason, we are providing you with our basis of conclusions.

First:

CECyT's General Director (FACPCE's standard setter body) has recently participated in different conferences where he presented the main characteristics of the discussion paper:

- National Congress of Perú (July 2004)
- CILEA's seminary (August 2004)
- Accountant's College of Paraguay (August 2004)

Some important opinions were gathered through these events and a summary of them is being carried out.

Second:

Our Federation organized a special meeting during a complete day.

We hosted a meeting of 40 representatives of different and related interests related to SMEs: accountants, user of the entity's financial statements, control entities, members of professional councils, and others.

During the meeting our General Director together with our representative before the IFRIC (Mr. Marchese) presented the discussion paper during one hour and then they leaded the discussion of each question.

The participants worked in seven groups and they expressed their position about each topic.

Third:

Finally, the coordinators worked in a technical position.

2. Comments about the discussion paper

Each question evidences the majority as well as the minority position (with each percentage). We regarded both points of view as relevant.

Issue 1. Should the International Accounting Standards Board (IASB) develop special financial reporting standards for SMEs?

<i>Question 1a. Do you agree that full IFRSs should be considered suitable for all entities? If not, why not?</i>

Main position (84%): Yes, we agree

Minority Position (16%): No, we disagree

Basis for the conclusions

Main position:

We agree with the fact that full IFRSs should be considered suitable for all entities because the objective of financial statements -as set out in the IASB Framework for the preparation and presentation of Financial Statements- is appropriate for SME as well as for entities which are required to follow full IFRSs.

If an entity follows IASB standards for SMEs, the basis of the presentation note and the auditor's report should make that clear.

Minority Position:

We disagree because the users of financial statements of SMEs are not as many as the users of financial statements of other entities.

Those users may have less interest in some information in general purpose financial statements, and their interests are also different.

<i>Question 1b. Do you agree that the Board should develop a separate set of financial reporting standards suitable for SMEs? If not, why not?</i>
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Main position (100%): Yes, we agree

Basis for the conclusions

We think that a working group consisted of members with experience in financial information for SME should be created. Thus, the standards would be focused on meeting the needs of SME financial statements' users.

Some commenters suggested:

The standards for SMEs should be a “framework” and national jurisdictions should adopt it according to each particular their context.

Question 1c. Do you agree that IASB Standards for SMEs should not be used by publicly listed entities (or any other entities not specifically intended by the Board), even if national law or regulation were to permit this? Do you also agree that if the IASB Standards for SMEs are used by such entities, their financial statements cannot be described as being in compliance with IFRSs for SMEs? If not, why not?

Main position (100%): Yes, we agree

Basis for the conclusions

IASB standards for SMEs are not intended for public listed entities even if national law or regulation would permitted it.

In this case, the needs of users of financial statements should be satisfied in the best form.

If an entity follows IASB standards for SMEs, the basis of presentation note and the auditor’s report should make that clear.

Issue 2. What should be the objectives of a set of financial reporting standards for SMEs?

Question 2. Are the objectives of IASB Standards for SMEs as set out in preliminary view 2 appropriate and, if not, how should they be modified?

Main position (84%): Yes, they are appropriate.

Minority Position (16%): No, they aren’t appropriate.

Basis for the conclusions

Main position:

The objectives of IASB standards for SMEs, as already mentioned above in preliminary view 2 are as follows:

- (a) To provide high quality, understandable and enforceable accounting standards suitable for SMEs globally;
- (b) To focus on meeting the needs of users of SME financial statements;
- (c) To build them on the same conceptual framework as IFRSs;
- (d) To reduce the financial reporting burden on SMEs that want to use global standards; and
- (e) To allow easy transition to full IFRSs for those SMEs that become publicly accountable or choose to switch to full IFRSs.

In general, we consider they are appropriate.

We might consider that the IASB Standards are not intended to meet the needs of tax authorities.

Some commenters –included in the main position- suggested:

1. The objective (b) and (d) should be taken into account as on a priority basis. The other objectives should be considered in a complementary way.
2. It is necessary to identify the users of financial statements of SMEs. This situation would help standard setters to classify the intended entities within the context of IASB standards for SMEs.
3. The objective (e) should be subordinated to the others. In front of two or more alternatives, the best option that permits the easiest transition should be elected.
4. The objective (b) should be: “(b) to focus on meeting the needs of users of SME financial statements *in shape balanced*”
5. The objective (e) should permit the transition between standards for SMEs and IFRS or between IFRS and IASB standards for SMEs.

Minority Position:

The minority position suggests:

1. The objective should be (b), (d) and (a).
2. The objective (c) should be: “(c) be based on a conceptual framework without changes in the definition of assets, liabilities and equity.
3. The objective (e) should be considered in a second place in front of the others.

Issue 3. For which entities would IASB Standards for SMEs be intended?

Question 3a. Do you agree that the Board should describe the characteristics of the entities for which it intends the standards but that those characteristics should not prescribe quantitative ‘size tests’? If not, why not, and how would an appropriate size test be developed?

Main position (72%): Yes, we agree

Minority Position (28%): No, we disagree

Basis for the conclusions

Main position:

The IASB should describe the characteristics of the SMEs, but those characteristics should not prescribe quantitative tests.

National jurisdictions should determine which entities are to be required or permitted to use IASB standards for SMEs.

Minority Position:

The characteristics and quantitative size tests should describe the features for SMEs.

In a special case, it is important to consider another situation (i.e.: small size entities with “public accountability”).

Question 3b. Do you agree that the Board should develop standards that would be suitable for all entities that do not have public accountability and should not focus only on some entities that do not have public accountability, such as only the relatively larger ones or only the relatively smaller ones? If not, why not?

Main position (57%): Yes, we agree

Minority Position (43%): No, we disagree

Basis for the conclusions

Main position:

There is a substantial group of persons outside the entity who have a direct financial interest in or claim against the entity or who are dependent on the entity to provide essential public services. These persons have a legitimate need for financial information about the entity but are not entitled to demand the information on their own.

Financial statements and other financial reports based on full IFRSs are intended to meet those needs.

For these reasons the Board should not focus only on some entities that do not have public accountability, such as only the relatively larger ones or only the relatively smaller ones.

Minority Position:

The minority position suggested:

1. Public accountability is the characteristic that distinguishes SMEs from other entities, but it will be combined with quantitative “size tests”.
2. The quantitative “size tests” might be fixed by national jurisdictions.

Question 3c. Do the two principles in preliminary view 3.2, combined with the presumptive indicators of ‘public accountability’ in preliminary view 3.3, provide a workable definition and appropriate guidance for applying the concept of ‘public accountability’? If not, how would you change them?

Main position (92%): Yes, they do

Minority Position (8%): No, they don’t

Basis for the conclusions

Main position:

The two principles combined with the presumptive indicators of “public accountability” provide a workable definition of an appropriate guidance for applying the concept of “public accountability”.

Some –included in the main position- suggested:

1. It would be necessary to include another principle that it would be related with the presumptive indicator (d).
2. If we accept in the question (3a) that the IASB should fix a “quantitative size test” with each national jurisdictions, then the presumptive indicators (d) will not be necessary.

Question 3d. Do you agree that an entity should be required to use full IFRSs if one or more of the owners of its shares object to the entity’s preparing its financial statements on the basis of IASB Standards for SMEs. If not, why not?

Main position (97%): No, we disagree

Minority Position (3%): Yes, we agree

Basis for the conclusions

Main position:

We do not agree that an entity should be required to use full IFRSs if one or more of the owner of its shares object to the entity’s preparing its financial statements on the basis of IASB Standards for SMEs. Because it is necessary a minority of shareholders requiring the application of IFRSs.

One possibility could be to demand the majority established by local regulations in the cases of making decisions.

Another possibility could be to demand a minimum of shares held in order to require the application of IFRSs.

Minority Position:

Any shareholder, regardless their size, should have the opportunity to demand for additional information on the entity.

An entity that does not satisfy any of the presumptive indicators of public accountability would nevertheless be regarded as having public accountability unless it has informed all of its owners, including those not otherwise entitled to vote, that it intends to prepare its financial statements on the basis of IASB Standards for SMEs rather than on the basis of IFRSs, and none of those owners objects the application of IASB Standards for SMEs.

Question 3e. Do you agree that if a subsidiary, joint venture or associate of an entity with public accountability prepares financial information in accordance with full IFRSs to meet the requirements of its parent, venturer or investor, the entity should comply with full IFRSs, and not IASB Standards for SMEs, in its separate financial statements? If not, why not?

Main position (86%): Yes, we agree

Minority Position (14%): No, we disagree

Basis for the conclusions

Main position:

If a subsidiary, joint venture or associate of an entity with public accountability prepares financial information in accordance to full IFRSs to meet the requirements of the parent, venturer or investor, it should comply with full IFRSs, not IASB Standards for SMEs, in its separate financial statements.

Minority Position:

This requirement should only be applicable to the subsidiaries. The rest of the above mentioned should apply the relevant standard.

Issue 4. If IASB Standards for SMEs do not address a particular accounting recognition or measurement issue confronting an entity, how should that entity resolve the issue?

Question 4. Do you agree that if IASB Standards for SMEs do not address a particular accounting recognition or measurement issue, the entity should be required to look to the appropriate IFRS to resolve that particular issue? If not, why not, and what alternative would you propose?

Main position (100%): Yes, we agree

Basis for the conclusions

If IASB Standards for SMEs do not address a particular accounting recognition or measurement issue that is addressed in an IFRS, the entity would be required to look to that IFRS to solve that particular issue only. The entity would continue to use IASB Standards for SMEs for the remainder of its financial reporting.

The issued not addressed by the IASB Standards for SMEs should be solved by applying of the relevant IFRSs. If it were not feasible, IASB's Framework should be applied.

Issue 5. May an entity using IASB Standards for SMEs elect to follow a treatment permitted in an IFRS that differs from the treatment in the related IASB Standard for SMEs?

Question 5a. Should an SME be permitted to revert to an IFRS if the treatment in the SME version of the IFRS differs from the treatment in the IFRS, or should an SME be required to choose only either the complete set of IFRSs or the complete set of SME standards with no optional reversion to individual IFRSs? Why?

Main position (59%): Yes, an SME should be permitted to revert to an IFRS if the treatment in the SME version of the IFRS differs from the treatment in the IFRS.

Minority Position (41%): No, we don't agree.

Basis for the conclusions

Main position:

An SME should be permitted to revert to an IFRS if the treatment in the SME version of the IFRS differs from the treatment in the IFRS because, in our opinion,

- (a) It enhances the quality of the information obtained; and
- (b) It is a more flexible position for the SMEs.

Minority Position:

Those who opposed to this reversion grounded their opinion on the fact that:

- (a) it would affect the comparability of the financial statements;
- (b) it would make manipulation of accounting information easier.

Question 5b. If an SME is permitted to revert to an IFRS, should it be:

- (a) required to revert to the IFRS in its entirety (a standard-by-standard approach);***
 - (b) permitted to revert to individual principles in the IFRS without restriction while continuing to follow the remainder of the SME version of the IFRS (a principle-by-principle approach); or***
 - (c) required to revert to all of the principles in the IFRS that are related to the treatment in the SME version of that IFRS while continuing to follow the remainder of the SME version of the IFRS (a middle ground between a standard-by-standard and principle-by-principle approach)?***
- Please explain your reasoning and, if you favor (c), what criteria do you propose for defining 'related' principles?***

Three different positions arise on the matter:

Main position (38%): Those persons commenting on Q5a have chosen that a reversion on a IFRSs should not be permitted.

First Minority Position (35%): We agree that required to revert to the IFRS in its entirety (a standard-by-standard approach)

Second minority position (27%): We agree that required to revert to all of the principles in the IFRS that are related to the treatment in the SME version of that IFRS while continuing to follow the remainder of the SME version of the IFRS (a middle ground between a standard-by-standard and principle-by-principle approach)

Basis for the conclusions

Those electing the standards-by-standard approach consider it is a more flexible alternative for the SMEs but, at the same time, it does not facilitate the manipulation of accounting information.

Each IFRS contains measurement and presentation standards which are interrelated with others IFRSs. In light of this, it is advisable to take them as a whole set.

Criteria used to define the related principles

- (a) The related principles are those being applied to certain assets and liabilities that are similar, regardless the IFRS encompassing them.
- (b) Those referring to the elements of the financial statements that have a similar impact on the measurement and presentation of such financial statements.

Issue 6. How should the Board approach the development of IASB Standards for SMEs? To what extent should the foundation of SME standards be the concepts and principles and related mandatory guidance in IFRSs?

Question 6. Do you agree that development of IASB Standards for SMEs should start by extracting the fundamental concepts from the Framework and the principles and related mandatory guidance from IFRSs (including Interpretations), and then making modifications deemed appropriate? If not, what approach would you follow?

Main position (70%): Yes, we agree.

Minority Position (30%): No, we disagree.

Basis for the conclusions

Main position:

The needs of users of financial statements of SMEs are similar in most of the cases to the needs of users of financial statements of publicly accountable entities.

For that reason the IFRSs are the logical starting point for developing a set of IASB Standards for SMEs.

Minority Position:

We do not agree with the fact that development of IASB standards for SMEs should start from the Framework, principles and related mandatory guidance of IFRSs (including interpretations) because the users' needs of the SMEs' financial statements are different.

Each jurisdiction should adopt the accounting criteria in accordance to their realities and therefore it would be advisable that IASB Standards for SMEs encompass the general concepts that correspond to them.

Issue 7. If IASB Standards for SMEs are built on the concepts and principles and related mandatory guidance in full IFRSs, what should be the basis for modifying those concepts and principles for SMEs?

Question 7a. Do you agree that any modifications for SMEs to the concepts or principles in full IFRSs must be on the basis of the identified needs of users of SME financial statements or cost-benefit analyses? If not, what alternative bases for modifications would you propose, and why? And if so, do you have suggestions about how the Board might analyse the costs and benefits of IFRSs in an SME context?

Main position (100%): Yes, we agree

Basis for the conclusions

In deciding which modifications to make, we will be guided by the costs and other burdens that particular requirements in IFRSs impose on SMEs. There would be minimal benefit and possibly a substantial cost for an SME to provide information that users of its financial statements do not use. It is based on full IFRSs and includes only a relatively limited number of modifications to full IFRSs.

Some disclosures in IFRSs are intended primarily to meet the needs of users of financial statements of entities with public accountability. This seems a logical starting point for developing a set of IASB Standards for SMEs.

How the Board might analyse the costs and benefits of IFRSs in an SME context?

FACPCE's suggestions:

- (1) A survey could be useful to gather information on users' opinion regarding costs and benefits within this context.
- (2) It would be helpful to identify the users of SMEs' financial information which would enable to determine the concept of costs and benefits for them.
- (3) Considering the existence of mandatory legal standards conditioning the application of this cost/benefit principle would also be of help.
- (4) Determining the type of administrative structure of SMEs and analysing the limitations this would generate would be as well advisable.
- (5) The information required by IFRSs should be classified by its importance. Then, this information should be classified by the cost implied in obtaining it.

Question 7b. Do you agree that it is likely that disclosure and presentation modifications will be justified on the basis of user needs and cost-benefit analyses and that the disclosure modifications could increase or decrease the current level of disclosure for SMEs? If not, why not?

Main position (100%): Yes, we agree

Basis for the conclusions

Some commenters suggested:

1. The modifications regarding the disclosure could only decrease the current level of disclosure for SMEs.
2. In the event an increase in the amount of information to disclose would be accepted, the application of a related IFRS should not be permitted.
3. The increase in the amount of information to disclose should not affect the consideration of cost/benefit relationship.

Question 7c. Do you agree that, in developing standards for SMEs, the Board should presume that no modification would be made to the recognition or measurement principles in IFRSs, though that presumption could be overcome on the basis of user needs and a cost-benefit analysis? If not, why not?

Main position (84%): Yes, we agree

Minority Position (16%): No, we disagree

Basis for the conclusions

Main position:

We agree with the fact that, in developing standards for SMEs, the Board should not presume that no modification would be made to the recognition or measurement principles.

This rule should be excepted on the basis of costs/benefits analysis and on the grounds that users' needs are different.

Minority Position:

SMEs users' needs justify the application of different solutions which may produce differences in the measurement criteria. Those sharing this view also think that differences in the recognition criteria should not be permitted.

However, some commenters concluded that differences in the recognition and measurement criteria should be accepted when users' needs and the cost/benefits analysis would demand do.

Issue 8. In what format should IASB Standards for SMEs be published?

Question 8a. Do you agree that IASB Standards for SMEs should be published in a separate printed volume? If you favour including them in separate sections of each IFRS (including Interpretations) or some other approach, please explain why.

Main position (85%): Yes, we agree that IASB Standards for SMEs should be published in a separate printed volume.

Minority Position (15%): We agree that IASB standards for SMEs should be published in separate sections in each IFRS.

Basis for the conclusions

Main position:

A separate volume seems to make the application/use of standards easier.

A table could be drafted containing IFRSs and IASB Standards for SMEs for comparison purposes.

Minority Position:

IASB standards for SMEs should be published in separate sections in each IFRSs containing their own language, simplifying the text and omitting the detailed encompassed by the IFRS. The text should be complete but any reference to other SMEs Standards should be omitted.

Question 8b. Do you agree that IASB Standards for SMEs should be organised by IAS/IFRS number rather than in topical sequence? If you favour topical sequence or some other approach, please explain why.

Main position (73%): Yes, we agree

Minority Position (27%): No, we disagree

Basis for the conclusions

Main position:

The IASB Standards for SMEs should be organized by IAS/IFRS number.

A numeral index and another topic-by-topic index would be useful in order to facilitate the link with the relevant IFRS.

Minority Position:

The IASB Standards for SMEs should be organized by topical sequence.

Question 8c. Do you agree that each IASB Standard for SMEs should include a statement of its objective, a summary and a glossary of key terms?

Main position (84%): Yes, we agree

Minority Position (16%): No, we disagree

Basis for the conclusions

Main position:

Each IASB Standard for SMEs should include a statement of its objective, a summary and a glossary of key terms. It would also be advisable to include the basis for conclusions of those SMEs Standards.

Minority Position:

Each IASB Standard for SMEs should not include a statement of its objective, a summary and a glossary of key terms.

It is not necessary since they are already encompassed by the IFRSs.

The addition of a specific glossary would be necessary, too.

<p><i>Question 9. Are there any other matters related to how the Board should approach its project to develop standards for SMEs that you would like to bring to the Board's attention?</i></p>
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The following are additional ideas gathered during the process of developing this questionnaire:

The hereunder comments do not form part of a particular group of people but rather they belong to individuals whose opinion we believe IASB should be aware of for the records.

1. In order to be able to prepare accounting standards for SMEs, a new Conceptual Framework for SMEs' users as well as a Working Group or Committee consisted of experts on this subject would be necessary.
2. Being an SME does not mean that the financial statements will not be subject to the auditing or revision required by law.
3. Each jurisdiction where IASB Standards for SMEs are to be adopted should allow the possibility to consider the existence of micro entities which are required to present their financial statements by means of adapting said standards to the particular characteristics of these entities.
4. It would be advisable to bear in mind that some SMEs have special features that make their special information more useful for some users than for others. For example: the cash flow for not profitable entities is a main factor when presenting financial information.
5. In the case of micro entities (because of its activity performance), the financial statements could be not as detailed as those presented by SMEs.
6. The addition of illustrative models of exposure, should be added in the IASB standards for SMEs.